

Transformation Process in Central Eastern Europe: Continuity and Changes in Institution Building

Transition versus Transformation Process: Mainstream Approaches

In the late 1980s and at the beginning of the 1990s the dominant view among the economists and political scientists observing and advising the process of change from planned economy to market one in the post-socialist countries of Central and Eastern Europe regarded change more from one type of socio-economic regime to another, ignoring any institutional continuity. The transition was interpreted as a once and for all shift from political-economic regimes based on the logic of central planning to another political-economic regime based on the logic of the market. (For instance, the notion of transition was so popular among the Hungarian social scientists, that in the first years of the 1990s a forum, established to discuss the various aspects of the transformation process was called 'Transit Club'.)

Transition means radical (100 per cent) break with the social and economic institutions of the ex-socialist system and the creation of brand new institutions, patterns of behaviour of the social and economic agents. The new system gives the society a development potential, where the old system has been thoroughly exhausted. This approach is often characterised by the 'O'sum game model of society, according to this logic, the triumph of one social-economic system implies complete failure of the other one. Assuming incompatibility between social systems excludes any continuity of former patterns of social relations and their perspective institutions. The societal developments seem to be following the rationality of war: without complete destruction of the old institutions it is almost impossible to create genuine new institutions of the market economy. (Using a very crude or shocking comparison: several Russian generals were convinced that the only viable solution for the Chechnya crisis would be the complete bombing of the country and establishment of peace on the ruins of the war.)

This view on transition is related to a variety of other concepts. Firstly, the legacy of *the socialist past represents only institutional deficiency* and limits the speed of the transition process. Secondly, *overestimates the level of coherence (or homogeneity) of institutions* of the former socialist social-economic regime and neglects the diversity of regulations governing both individual and collective actions. Thirdly, this view of 'turn-key' capitalism *underestimates the importance of time for the social learning*

process in creating market economy consistent institutions in the post-socialist countries of Central and Eastern Europe.

Based on his comparative study of the past and present development of the former GDR and Hungary, Gernot Grabher criticised the above mentioned transition approach: "The vision of Central Eastern Europe's future is shaped by images of Western Europe's and North America's present ...and this basically teleological development concept of changes anticipates future society which is not only desirable, but already known." (Grabher, 1995: 33.) Or, using another well known expression: "End of History."

The other more balanced approach concerning the changes of the 1990s refuses the 'social tabula rasa' or 'institutional vacuum' arguments of the transition. This approach stresses the importance of the *transformation process*, in which the political and economic institutions, patterns of social actors' behaviour is 're-combined' with some of the old institutional elements. It is argued by recognising the role of 'path-dependence' in the emergence of the new institutions of the market economy (for instance, privatisation, governance structure of the firms, etc.) we may better understand the variety of trajectories and forms of development in the post-socialist countries (Stark, 1992, Chavance, 1995 and Hausner-Jessop-Nielsen, 1995).

The basic differences between 'transition' and 'transformation' are not only theoretical but have significant effects on the success of economic restructuring of the country concerned. As a specialist of macro-economic development has noticed recently: "In the course of reconstruction period the customary, the already-known and well-practised are re-established, such that old skills can efficiently be used. The contrary is true for transformation periods. They require the acceptance of the new and different, the acquisition of new skill, and the dissemination of these elements." (Bekker, 1995: 105)

Is There any 'Ready-made' Success Formula for Development in the Post-socialist Countries?

2.1. Some examples questioning the homogeneity of socialist type institutions¹

It is not necessary to list here the overwhelming evidence on the diversity of development presented by Hungarian social scientists who question the validity of the approaches which exaggerate the impact of central planning on the desirable patterns of behaviour. These approaches are based on the concept of the interest or conflict free society: conflicts of interest or power struggles among the different social-professional groups co-operating in the factory society — as well as in other institutions of the society — were ignored. Considering for instance the assumption that the individual or collective behaviour of employees followed almost automatically the intentions of policy makers translated into the plan-indicators.

In Hungary, from the beginning of the 1970s, we were in a position to analyse and publicly present the practice of 'restriction of output' or 'quota restriction' by core groups of industrial workers, which represented in the term of Hirschman a "collective voice" option within the socialist firm. This type of collective resistance of workers against the intensification of work in industrial plants indicated the important role of variables other than state planning in shaping the individual and collective behaviour of workers (Héthy-Makó, 1989).

The other significant deviation from the original model of planned economy was the development of the so-called 'second economy', which represented all types of economic activities organised outside the state (or planning) coordinated activities. The development of this type of activities started in the agriculture and expanded fast into the service and even — from the beginning of the 1980s — into the industrial sectors (Gábor-Horváth-Lac-Murard, 1990).

The increasing diversity of organisational solutions to economic problems (e.g. motivation of manpower, quality of products and services, etc.) helped to develop an extremely rich 'pool' of organisations and experiences for a relatively large segment of employees. For instance, during the peak of the Economic Working Associations (first half of the 1980s), almost 10 per cent of the industrial work force participated in a type of 'autonomous work organisation' and learned how to design, organise their work differently compared to the practice of manpower and skill use in the state-owned firms. In this process of combining of the various organisational-cultural experiences, participants developed a higher level of organisational reflexivity or even holistic view on how to organise economic activity. This accumulation of both technical and social-organisational knowledge has played an important role in the relatively fast creation and stabilisation of the small business sector in the country (Makó-Simonyi, 1992).

Following the changes of the 1990s the development of the political institutions received more attention compared to the other institutional elements of the emerging market economy. For instance, the Industrial Relations System (IRS) in general and its micro (workplace) level were mostly ignored.

In creating a new IRS, the mainstream approaches of societal changes were influential in this field, too. The representatives of the so-called 'institutional vacuum' approach in the field of IRS, were prone to imitate or copy elements of existing patterns (mainly from Germany) of the social regulation of work, under the constructive role of International Labour Office (ILO). The other form of imitation was, when some new trade union leaders tried to give new life to romanticised forms of worker's self-management. Surprisingly, in creating market-consistent IRS, Hungarian scholars and politicians limited their attention to Western Europe and the USA and almost completely neglected the experiences accumulated in this field in the Asian 'power-house' of the world economy: Japan.

In spite to this underestimation of the 'Japanese lessons', in the field of IRS, the Japanese social scientists themselves initiated several important co-operative research projects. The results of these joint efforts have contributed to a better understanding of

the transformation process and helped us to avoid the well-known Hungarian change syndrome of 'institutional imitation'.

Some lessons from the joint Hungarian-Japanese research co-operation: the case of the firm-level Industrial Relations

In relation to the co-operation between the Hungarian and Japanese social scientists in the field of firm-level Industrial Relations, it is worth to call attention — among others — to the following projects²;

- a) Hungarian Labour Relations project initiated and carried out by the *Japan Institute of Labour (JIL-Project)* in 1992-1993;
- b) *Denki Roren (Rengo)* Trade Union Confederation operating in the electronic and information sector initiated to 'repeat' the 1984 international survey in 1994 to identify the changing or stable elements at the firm-level labour relations.

The so-called *JIL Project* was the first international initiative aimed at focusing attention on the firm-level changes of the emerging autonomous Industrial Relations System in Hungary. (JIL Hungarian Survey: 1992-1993) On this occasion, I intend to present some lessons from this research which called attention to the very complex nature of the transformation process, namely to the positive role of the institutional legacy of the past and questioned the view which conceived of the past institutions as only having a negative impact on the process of changes. For instance, according to the survey of JIL, carried out on a large national sample of Hungarian firms, the majority of trade unions have accepted and a significant number even supported the employment cuts during the re-structuring process of former state firms following the collapse of the COMECON market. Only a small number of local unions has rejected lay-offs at their plants. Regarding this *co-operative pattern of relations between management and trade unions*, no differences were found between unions belonging to the different trade union centres and confederations.

During the economic re-structuring of the companies, co-operation between local trade unions belonging to different confederations was also smooth, in spite of the war-like relations among the leaders of the 'new' or 'renewed' national centres of the trade union confederations. A closer examination of labour disputes at firm level helps us to understand the economic rationality of this co-operation. Nowadays, besides the still important question of wages, we find privatisation, reorganisation of the firms and the problems of employment protection connected to these issues. Circumstances and procedures of redundancy have also moved into the centre of labour disputes. (See Table 1.)

This *co-operative pattern in the firm-level conflict resolution* is well reflected in the number of collective industrial disputes. For instance, in Hungary strike activities remained rather low compared to the other Central East European countries. The most important strikes were organised in the state-owned branches such as railway transportation, the energy sector and education (Makó-Simonyi, 1996).

Table 1. Changing topics of labour disputes

Subjects	Before 1990		1990 and after	
Reorganisation of the company	96	10.9%	117	10.5%
Implementation of privatisation	30	3.4%	114	10.1%
Introduction of worker's ownership	24	2.8%	109	9.7%
Safety in the workplace	85	9.6%	175	15.5%
Wage issues	245	27.7%	213	18.9%
Other allowances	196	22.2%	158	14.0%
Work schedule and shift work	84	9.5%	54	4.8%
Working time (overtime)	84	9.5%	64	5.7%
Redundancy payments	39	4.4%	122	10.8%
Total:	883	100.0%	1126	100.0%

Source: The Japan Institute of Labour "Hungarian Labour Relations" survey carried out in 1992/1993 and Labour Relations officials were interviewed in a national sample of 345 firms. (Makó-Novoszáth (1995) 'Employment Relations in Multinational Companies: the Hungarian Case', in Dittrich-Schmidt-Whitley (eds): *Industrial Transformation in Europe (Process and Contexts)*, London: SAGE Publication, p. 261.

The other important lesson was drawn from the *International Workers' Attitude Survey* initiated in 1994 by the Denki Rengo Trade Union Confederation. This trade union is operating in the electric and electronic industry.

In 1994, this international project was repeated in the same sample of the firms using the same research tools. The core aim of this international survey was to map the impact of the changes which have occurred in Western Europe, Japan, and in the former socialist countries on firm-level labour relations. Some characteristics of the changes were similar (e.g. globalisation of the world economy and the still very national character of the labour relations institutions, decline in manufacturing industry, losing the importance of the fordist-type production paradigm, etc.), others by and large restricted to the post-socialist countries of Hungary, Poland and Slovenia (e.g. economic restructuring combined with the privatisation of the state [public] ownership, shifting market orientation from the ex-socialist countries to the market of the developed economies, etc.).

The evaluation of the international survey has not yet been finished, but we may mention some important *changes and continuities* in the patterns of firm-level labour relations. To illustrate the noticeable changes comparing the Hungarian data of the 1984 and 1994 survey, it is worth mentioning the following. The overall degree/rate of unionisation is decreasing in Hungary. But in the firms studied in electric and

electronic industry, the *degree of unionisation* remained rather high (71.3 per cent) — compared to other countries participating in the international comparison. Among the various social-professional groups, the unionisation rate is highest in the group of blue-collar workers (75.3 per cent) and of supervisors (77.8 per cent) and the lowest in the groups of technical employees (30-35 per cent).

The *mobilisation rate* — which is another, often underestimated indicator of the trade union representativeness — changed in a dramatic and unequal way; for instance in the case of the 'TV-Factory' it has declined sharply (-22.2 per cent), but in the 'Light-Source Plant' improved slightly (+ 3.8 per cent), compared to the situation ten years ago. These differences could hardly be explained by the weakening of firm-level trade union activity, because in both plants surveyed new and genuinely independent trade unions emerged in the last half decade. The decline of the mobilisation rate in the 'TV-Factory' could be attributed to the declining market position of product manufactured in the period of the second survey and the related unpredictability of the future of the firm.

In spite of the growing importance of independent trade union activity in the last half decade, the *existing patterns of double loyalty did strengthen, too*. See the following Tables!

Table 2. Question: "How far does the decision of your local union reflect your opinion?"

Answers	Survey of 1984	Survey of 1994
(1) Very well + (Fairly well):	33.2%	54.5%
(2) Not very well + (4) Not at all:	18.9%	30.7%
(5) I do not expect anything:	10.4%	12.9%
No answers:	37.5%	1.9%
Total:	594	411

Table 3. Question: "How far does the decision of management in your plant reflect your opinion?"

Answers	Survey of 1984	Survey of 1994
(1) Very well + (2) Fairly well:	45.2%	55.7%
(3) Not very well + (4) Not at all:	23.4%	35.0%
(5) I do not expect anything:	4.4%	7.5%
No answers:	26.1%	1.7%
Total:	594	411

This strengthening the phenomena of “double-loyalty” of employees is based on “economic rationality” (helping the company’s survival and employment stability) in 1994, instead of the “ideological one” identified in 1984 (Ishikawa, 1992: 88-91).
→ “Economic rationality” which is — among other things — well reflected in the pattern of the company’s identity, could be explained by the ‘mini-co-operativism’ which is shaped largely by the present transformation crisis. In these circumstances, the employee’s interest to keep employment depends on both the flexibility and competence of the firm’s management and the employees. Employees tend to identify with ‘their’ firm or company’s future to stabilise employment. This pattern of co-operation creates favourable social-organisational (or even cultural) conditions for the new-type of co-operation based on so-called “productivity coalitions” between the social partners. (Streeck, 1993: 60-62) These changes are also well reflected in the attitudes of respondents towards the role of privatisation. Attitudes of employees surveyed in the Hungarian firms regarding a wide range of issues are less a reflection of ideological conviction but more of economically motivated opinions.

Some concluding remarks

Following the collapse of the socialist-type political and economic regime and creating the new institutions many advocates of transformation have rejected ideas of possible recombination of any old and new elements in the field of Labour Relations. This view is based on the so-called ‘social tabula rasa’ approach which treats the society as a ‘blank sheet’ for the political and economic policy makers. It is necessary to mention that at the beginning of the 1990s there was a strong tendency towards ‘institutional imitation’ in the field of Labour Relations. One of the most important contributions of the joint Hungarian-Japanese research co-operation in relation to the emerging new Labour Relations was to avoid to copy this pitfall. For instance, the demonstration of the viability of the pattern of ‘double loyalty’ and co-operation between the firm-level social partners helped us pay attention not only to their institutional changes but also to their continuity. Both the results of the Denki Rengo-initiated international survey on the workers’ attitudes and the Japan Institute of Labour (JIL) project on the Hungarian Labour Relations questioned the validity of the ‘ready-made concept’ to the development of a new autonomous system of Labour Relations. The empirical evidence learned from these and other joint projects called our attention to the fact that, in contrast to theories indicating an easy transfer of solutions from the mature capitalist economies to post-socialist countries, the everyday practice of Labour Relations is more ‘opportunistic’. In reality, the patterns of development that proved to be successful, were based on combinations of ‘old’ and ‘new’ actors and institutions, new legal regulations and traditions.

Finally, I intend to stress some proposals of our future co-operation with Japanese social scientists. These suggestions were formulated on the basis of the results of the discussion focused on business organisation and industrial relations in the

transformation process. One of the most debated but also less known issues is the need for a better understanding of the social-cultural 'fabric' of economic behaviour in the newly developing market economies in the post-socialist countries of Central and Eastern Europe. In this context it is intended to conduct a joint project investigating the interdependence of corporate governance, employment relations and economic performance. To understand the complexity of these issues, it is necessary to take a comparative perspective because of the continued interplay of local and global forces. From a methodological point of view, it became clear that it is advisable to combine the various types of research tools, in particular we must integrate into our analysis the dimension of 'time'. Without an understanding of the role of 'time space' it is almost impossible to identify the changing and stable institutional elements and their mutations which may shape the paths of development in the post-socialist countries in Central and Eastern Europe.

Notes

1. In our interpretation *institution* is a sociological concept which includes not only the formal economic and political institutions but also the patterns of social relations, behaviour, values, etc. These characteristics of the individual and collective behaviour are stable, at least in the short run. Recently, French sociologists have called this phenomenon as "social and realistic constructivism" (Dubois, 1994).

2. The other projects were dealing with the changing ownership and governance structure (Hokkaido University Project /1996/, Project leader: Professor Rihito Yamamura) and the shifting patterns of manpower and skill use (Rikkyo University Project /1995/, Project leader: Prof. Kiyoshi Kasahara) in the post-socialist firms in Hungary. (The Research Report of the latter research project will be published soon, and entitled Kiyoshi Kasahara-Csaba Makó (1996) *Manpower and Skill Use in the Transformation Process, (The Case of the Post-Socialist Firms)*, Tokyo: Rikkyo University — Budapest: Institute for Social Conflict Research, Hungarian Academy of Sciences, pp 148.

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